The Continuing Medicaid Budget Crunch

Kathleen D. Gifford
Principal
Health Management Associates
for
National Health Policy Forum

Washington, DC
April 30, 2010
Kgifford@HealthManagement.com
Outline for Today

- 2009 KCMU State Medicaid Budget Survey Results
- Mid – FY 2010 Survey Update
- HCR Implications
Context for 2009 Kaiser Medicaid Budget Survey

• 9.7% national unemployment rate in August 2009
  – 15 states at or above 10%
• 48 states projecting budget shortfalls
• Federal government providing 9 quarters of ARRA enhanced FMAP
  – $87 billion
  – Expires December 2010
  – MOE “strings attached”
Percent Change in U.S. Medicaid Enrollment, FY 1998- FY 2010

Annual growth rate:

Note: Enrollment percentage changes from June to June of each year.

Total Medicaid Spending Growth, 1996-2010

Strong Economy, Welfare Reform, Enrollment Declines, Managed Care 1995-1998

Health Care Cost Growth 1998-2000

Economic Downturn, Enrollment & Cost Growth, 2000-2003

Low Enrollment Growth & Rx Spending for Duals Moved to Part D 2006-2007


Economic Downturn 2008-2010

NOTE: Data for State Fiscal Years, for total Medicaid spending, including state, local and federal funds.

Percent Change in Total Medicaid Spending and Enrollment, FY 1998- FY 2010

NOTE: Enrollment percentage changes from June to June of each year. Spending growth percentage changes in state fiscal year.

SOURCE: Enrollment Data for 1998-2008: Medicaid Enrollment in 50 States, KCMU. Spending Data from KCMU Analysis of CMS Form 64 Data for Historic Medicaid Growth Rates. FY 2009 and FY 2010 data based on KCMU survey of Medicaid officials in 50 states and DC conducted by Health Management Associates, September 2009.
Total and State Funds Medicaid Spending Growth
FY 2000 - FY 2010

How States Used ARRA Enhanced Medicaid Funding in FY 2009

- Closed or Reduced State General Fund Shortfall: 44 states
- Helped Pay for Increases in Medicaid Enrollment: 33 states
- Avoided or Restored Eligibility Cuts: 29 states
- Avoided Benefit Cuts: 36 states
- Avoided or Reduced Provider Rate Cuts: 38 states
- Closed or Reduced Medicaid Budget Shortfall: 36 states

State Policy Actions, FY 2009 and FY 2010

Provider Payments

States with Improvements

States with Program Restrictions

NOTE: Past survey results indicate not all adopted actions are implemented. Provider payment restrictions include rate cuts for any provider or freezes for nursing facilities or hospitals. Eligibility includes eligibility and application expansions/restrictions.

Medicaid Provider Rate Changes FY 2007 – FY 2010

States with Rate Increases

<table>
<thead>
<tr>
<th></th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
<th>Adopted 2010</th>
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</thead>
<tbody>
<tr>
<td>Any Provider</td>
<td>51</td>
<td>50</td>
<td>48</td>
<td>44</td>
</tr>
<tr>
<td>Inpatient Hospital</td>
<td>34</td>
<td>35</td>
<td>24</td>
<td>18</td>
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<tr>
<td>Physicians</td>
<td>25</td>
<td>27</td>
<td>19</td>
<td>9</td>
</tr>
<tr>
<td>MCOs</td>
<td>29</td>
<td>31</td>
<td>29</td>
<td>28</td>
</tr>
<tr>
<td>Nursing Homes</td>
<td>45</td>
<td>46</td>
<td>37</td>
<td>25</td>
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</table>

States with Rate Restrictions

<table>
<thead>
<tr>
<th></th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
<th>Adopted 2010</th>
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<tbody>
<tr>
<td>Any Provider</td>
<td>21</td>
<td>26</td>
<td>33</td>
<td>39</td>
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<tr>
<td>Inpatient Hospital</td>
<td>16</td>
<td>17</td>
<td>27</td>
<td>33</td>
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<tr>
<td>Physicians</td>
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<td>8</td>
<td>13</td>
<td></td>
</tr>
<tr>
<td>MCOs</td>
<td>5</td>
<td>5</td>
<td>5</td>
<td></td>
</tr>
<tr>
<td>Nursing Homes</td>
<td>6</td>
<td>5</td>
<td>14</td>
<td>26</td>
</tr>
</tbody>
</table>

NOTE: Past survey results indicate adopted actions are not always implemented. Any provider also includes outpatient hospital, dentist, home health, and home and community service providers. Rate restrictions include rate cuts for any provider and also frozen rates for inpatient hospitals and nursing homes.

Medicaid Benefits: States Cutting FY 2003- FY 2010

<table>
<thead>
<tr>
<th>Year</th>
<th>Number of States</th>
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<tbody>
<tr>
<td>2003</td>
<td>18</td>
</tr>
<tr>
<td>2004</td>
<td>19</td>
</tr>
<tr>
<td>2005</td>
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<td>2007</td>
<td>6</td>
</tr>
<tr>
<td>2008</td>
<td>3</td>
</tr>
<tr>
<td>2009</td>
<td>10</td>
</tr>
<tr>
<td>2010</td>
<td>15</td>
</tr>
</tbody>
</table>

New or Expanded Medicaid Disease Management or Care Management Initiatives, FY 2009 – FY 2010

Number of States

<table>
<thead>
<tr>
<th>FY 2009</th>
<th>Adopted 2010</th>
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</thead>
<tbody>
<tr>
<td>12</td>
<td>14</td>
</tr>
</tbody>
</table>

Medicaid E-Prescribing or EMR / EHR Initiatives
FY 2009 - FY 2010

Mid FY 2010 Survey Update

- 44 states and DC reported enrollment and spending trends higher than projected at the beginning of FY 2010

- 29 states reported additional mid-year cuts likely (despite enhanced ARRA FMAP)
  - 15 states said too soon to tell

- FY 2011: more drastic cuts
  - State revenue recovery unlikely to offset ARRA FMAP cliff

## Health Care Reform

<table>
<thead>
<tr>
<th><strong>Opportunities</strong></th>
<th><strong>Challenges</strong></th>
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<tbody>
<tr>
<td>• Major infusion of federal funds</td>
<td>• New eligibles not fully funded after 2016; woodwork effect</td>
</tr>
<tr>
<td>➢ Positive economic “<em>multiplier effect</em>”</td>
<td>• Major unfunded administrative challenges</td>
</tr>
<tr>
<td>• Potential offsets to other state/local health programs due to lower indigent care costs</td>
<td>• Builds on existing Medicaid program which is already deemed unsustainable by some states</td>
</tr>
<tr>
<td>• Direct grant opportunities for HIT, wellness, public health, etc.</td>
<td>• Supplemental rebate losses retroactive to January 2010. May diminish ongoing leverage to negotiate</td>
</tr>
<tr>
<td>• Over time, demonstration projects (e.g. readmissions, ACO’s, etc.) will hopefully bend the cost curve/improve quality</td>
<td>• Clawback implications of the closure of the Medicare Part D donut hole</td>
</tr>
<tr>
<td>• Better access to primary and preventive care may result in healthier workforce, students, etc.</td>
<td>• Increased pressure for provider rate increases</td>
</tr>
<tr>
<td>• Medicaid and Medicare integration</td>
<td>• Potential access issues/workforce shortages</td>
</tr>
<tr>
<td>• <em>Almost everyone will be covered!</em></td>
<td></td>
</tr>
</tbody>
</table>
Eligibility Issues With Medicaid Expansion

• New Eligibility Group: Adults below 133% FPL
  – Based on Modified Adjusted Gross Income (MAGI)
  – Effective threshold is 138% FPL
  – No Asset Test Applied

• Complexity Around Eligibility Determination
  – Who is Previously Eligible? (Standard FMAP)
  – Who is Newly Eligible? (Enhanced FMAP)
The Biggest Challenge: 
Eligibility Systems Changes

• Sense of urgency since January 2014 is so close, it is extremely complex, and there is little room for error – it has to be perfect

• Awaiting guidance from CMS so can begin to write system specifications and requirements
  – Must identify newly eligible individuals for higher match
  – Must use new income definitions for MAGI
  – Must integrate with Health Insurance Exchange and CHIP
  – Must be simple and easy to use

• Investment should result in a simpler, streamlined system, integrated with Insurance Exchange

HCR Maintenance of Effort

• Prohibits eligibility cuts/restrictions between 3/23/10 and 1/1/14 (similar to ARRA MOE)
  – Applies to both Medicaid and CHIP (ARRA: Medicaid only)

• Exception for a small number of states covering adults above 133% FPL

• MOE violations: loss of all federal Medicaid funding

• Could result in relatively larger provider rate cuts and benefit cuts
Conclusion

• The challenges have never been greater
• The opportunities have never been more exciting
• The states (with their CMS partner) will figure this out and make it work,
  – but it may be a bumpy ride . . .